

Lesson 1: Introduction to Labor Economics

Economics of Labor and Human Resources | March 11, 2026

AGENDA

- Introduction
- Importance of Protecting Labor
- Limitations
- Constitutional Basis
- Assumptions in Labor Economics
- Prevailing Theories
- Scope of Labor Economics

INTRODUCTION

Labor Economics is the study of the labor market and how labor markets influence the outcomes.

Labor represents the human factor in producing the goods and services of an economy. The quantity and quality of labor that individuals supply is an important factor in determining the economy's level of production and rate of growth.

- Quantity = refers to the labor force participation rate (LFPR). These are the actual individuals who work for the economy.

LFPR Formula

$$\text{LFPR} = \left(\frac{\text{employed} + \text{unemployed}}{\text{working age population}} \right) \times 100$$

Employment Rate Formula

$$\text{ER} = \frac{\text{employed}}{\text{laborforce}} \times 100\%$$

Unemployment Rate Formula

$$\text{UR} = \frac{\text{unemployed}}{\text{laborforce}} \times 100\%$$

- Quality = investment on human capital

Labor force refers to those aged 15 years old and older and either employed or unemployed.

- It includes 1) individuals who are currently employed, even if only part-time, 2) individuals who are actively seeking employment, and 3) available for work.
- It excludes 1) discouraged workers, and 2) not available for work.

Full time students who are not actively seeking employment, are not yet part of the labor force participation rate even if 15 y/o older. But if they have a part time job, they will be considered.

Examples of Discouraged workers: Stay-at-home parents, PWDs, people under institutional care, and PDLs.

Underemployed refers to employed persons who have jobs but whose skills, training, or availability are not fully utilized. This can lead to economic inefficiency or exploitation because they may not be earning the appropriate wage for their work.

Sec. 18, Art. II, 1987 Constitution – The State affirms labor as a primary social economic force. It shall protect the rights of workers and promote their welfare.

Labor is not merely an article of commerce. This provision is non-self-executing, so it needs an implementing law from Congress before it can be enforced. Hence, the Labor Code was enacted.

When there is doubt in the interpretation of labor laws, the rule is generally in favor of labor instead of capital, consistent with social justice and protection to labor.

IMPORTANCE OF PROTECTING LABOR

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The employer stands on higher footing than the Employee. There is greater supply than demand for labor. The need for employment by labor comes from vital and even desperate necessity.

The court ruled for PAL since the weight standard was a valid BFOQ. Dismissal was valid, not discriminatory.

The equilibrium wage is way lower than the minimum wage kasi sobrang dami ng supply for labor.

LIMITATIONS

1. Recognition of management rights – Protection of labor is not absolute. The capital/firms also recognize management rights. Employers' rights must also be respected and protected.

Management Prerogative – refers to the employer's right to regulate all aspects of employment. This covers pre-employment, during employment, and post-employment.

Refusal to obey a lawful and reasonable order is insubordination. It may be a ground for termination.

Bona Fide Occupational Qualification – a legally authorized restriction granted to employers to refuse the hiring of a person based on their sex, religion, or national origin.

Case Example

PAL required cabin crew to meet weight standards. However, the employee failed to comply despite being given a chance to take leaves and do consultation. The employee claimed discrimination.

2. Principle of non-oppression – neither labor nor capital may act oppressively against the other. The law protects both employer and employee.

CONSTITUTIONAL BASIS FOR LABOR (1987 PHILIPPINE CONSTITUTION)

Article II – Declaration of Principles and State Policies

- Sec. 9 - The State shall promote a just and dynamic social order that will ensure the prosperity and independence of the nation and free the people from poverty through policies that provide adequate social services, promote full employment, a rising standard of living, and an improved quality of life for all.
- Sec. 10 - The State shall promote social justice in all phases of national development.
- Sec. 14 - The State recognizes the role of women in nation-building, and shall ensure the fundamental equality before the law of women and men.
- Sec. 18 - The State affirms labor as a primary social economic force. It shall protect the rights of workers and promote their welfare.
- Sec. 20 - The State recognizes the indispensable role of the private sector, encourages private enterprise and provides incentives to needed investments.

There are special laws protecting women, such as maternity leave and VAWC leave (kaya

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may Magna Carta). These benefits sometimes lead to **discrimination in hiring**, since some employers prefer men. Still, the purpose of these laws is **protective**, not discriminatory.

Article III – Bill of Rights

- **Sec. 1** - No person shall be deprived of life, liberty, or property without due process of law, nor shall any person be denied the equal protection of the laws.
- **Sec. 4** - No law shall be passed abridging the freedom of speech, of expression, or of the press, or the right of the people peaceably to assemble and petition the government for redress of grievances.
- **Sec. 8** - The right of the people, including those employed in the public and private sectors, to form unions, associations, or societies for purposes not contrary to law shall not be abridged.
- **Sec. 10** - No law impairing the obligation of contracts shall be passed.
- **Sec. 16** - All persons shall have the right to a speedy disposition of their cases before all judicial, quasi-judicial or administrative bodies.
- **Sec. 18(2)** - No involuntary servitude in any form shall exist except as a punishment for a crime whereof the party shall have been duly convicted.

Labor unions exist in both private and government sectors. This is allowed under Section 8, Article III of the Bill of Rights. Government employees who want to create a union can register/accredit with the Civil Service Commission (CSC).

Unions negotiate for higher wages, improve working conditions, and protect conditions of employment.

Examples of labor unions in PUP:

- **UNAKA-PUP** – union for administrative employees
- **UGPUP (Unyon ng mga Guro sa PUP)** – union for faculty

Article XIII Social Justice and Human Rights

- **Sec. 2** - The promotion of social justice shall include the commitment to create economic opportunities based on freedom of initiative and self-reliance.
- **Sec. 3** - The State shall afford full protection to labor, local and overseas, organized and unorganized, and promote full employment and equality of employment opportunities for all.

It shall guarantee the rights of all workers to self-organizations, and peaceful concerted activities, including the right to strike in accordance with law. They shall be entitled to security of tenure, humane conditions of work, and a living wage. They shall also participate in policy and decision-making processes affecting their rights and benefits as may be provided by law.

The State shall promote the principle of shared responsibility between workers and employers and the preferential use of voluntary modes in settling disputes, including conciliation, and shall enforce their mutual compliance therewith to foster industrial peace.

The State shall regulate the relations between workers and employers, recognizing the right of labor to its just share in the fruits of production and the right of enterprises to reasonable

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returns on investments, and to expansion and growth.

- **Sec. 13** - The State shall establish a special agency for disabled persons for their rehabilitation, self-development and self-reliance and their integration into the mainstream of society.
- **Sec. 14** - The State shall protect working women by providing safe and healthful working conditions, taking into account their maternal functions, and such facilities and opportunities that will enhance their welfare and enable them to realize their full potential in the service of the nation.

The government encourages the hiring of PWDs by giving employers a tax incentive. If a firm hires a person with disability (PWD), it can claim a 25% additional tax deduction from gross income. Because of this, the firm may pay lower income tax.

ASSUMPTIONS IN LABOR ECONOMICS

1. **Scarcity** – economic resources are limited, so people must make choices.
2. **Opportunity Cost** – the value of the next best alternative given up when choosing something.
3. **Trade-off** – people choose between alternatives, such as leisure time and work time.
4. **Rationality** – individuals compare benefits and costs and choose the option that gives them more benefit than cost.
5. **Adaptability** – people adjust their behavior in response to changes, incentives, and costs.

PREVAILING THEORIES

1. **Orthodox Neoclassical Theory** – focuses on individual decision-making and market equilibrium.

– It replaced **Classical Political Economy** by Adam Smith, David Ricardo, Karl Marx.

Labor Theory of Value (Karl Marx)

- Workers receive only a portion of the value they produce. The surplus value goes to capitalists for investment and consumption. Capitalists maximize profit by paying workers less than the value of their output.
- Workers may move to other jobs offering higher wages.

Wage Differences

- Jobs requiring higher skills are assumed to have higher wages.
- Jobs requiring lower skills tend to have lower wages.

Unpleasant Jobs

- Risky or undesirable jobs must offer higher wages to attract workers.

2. **Jeremy Bentham** – Believed that human behavior follows **utility maximization**. People choose between work and leisure, pain and pleasure.

– He is a philosopher associated with ideas used in economics.

3. **Neoclassical Wage Theory** – Developed as a response to Marx's theory.

– Workers with the same ability and position should receive the same wage.

– If wages differ, workers will transfer to higher-paying jobs.

– The worker movement changes labor supply and demand, leading wages toward equilibrium.

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4. **Institutionalism** – Argues that neoclassical theory is not applicable in the long run.

– Wages are affected by institutions and social rules, not only markets.

5. **John Commons** – Father of Institutionalism and Father of Modern Labor Economics

– Economic activities occur within institutions such as (1) markets, (2) firms, and (3) families.

– These institutions have rules and regulations that determine property rights and ownership of resources.

Types of Transactions (Under John Commons)

Transaction refers to transfer of ownership.

1. **Bargaining** – Voluntary transfer

– Happens through market exchange

2. **Rationing** – Non-voluntary

– Decisions made by a superior authority

3. **Managerial** – Temporary transfer of control

– Ownership still belongs to the worker

– Example: a firm purchases labor services, but the worker still owns their labor.

Labor economics is studied to help economists understand labor-related problems and provide data for economic planning. For example, economic policies can directly affect the labor market. It also helps explain how the labor market works, particularly the interaction between labor supply and labor demand.

SCOPE OF LABOR ECONOMICS

- Labor mobility and migration
- Labor markets
- Supply of labor
- Union and collective bargaining
- Work leisure decision
- Government and institution
- Participation rates of labor
- Wage structure
- Quality of Labor
- Personal distribution of Earning
- Labor Productivity
- Wages and Inflation
- Employment and Unemployment

Lesson 2: Labor Market

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AGENDA

- Labor Market
- Characteristics of Labor Market
- Employer-Employee Relationship
- Types of Employment
- Apprentices and Learners

LABOR MARKET

The labor market is a place where workers and employees interact, where employers compete to hire the best, and the workers compete for the best satisfying job.

The employer is the buyer (Firm). It is any person, natural or juridical, domestic or foreign, who carries on in the Philippines any trade, business, industry, undertaking or activity of any kind and uses the services of another person, who is under his orders as regards the employment, except the Government and any of its political subdivisions, branches or instrumentalities, including corporations owned or controlled by the Government.

An employee is the seller (worker). It is any person who performs services for an employer in which either or both mental and physical efforts are used and who receives compensation for such services, where there is an employer-employee relationship. (R.A. No. 8282, Social Security Law)

Note: A self-employed person can be considered both the employer and the employee.

What is actually bought is not labor itself, but the work or service produced by the workforce.

Two Views of Work

1. Like any good or service that can be exchanged for wages.
2. Commodity but different from the rest of the goods and services.

However, labor is not considered a commodity because it does not meet all the conditions of a commodity:

- Possibility to be changed with another commodity through exchange contract (Yes)
- Giving up the ownership (No)
- Store in time (No)

Since ownership cannot be transferred and labor cannot be stored, labor is not a commodity.

CHARACTERISTICS OF LABOR MARKET

1. **Segmented** – The labor market is divided into different segments:

- **Primary** – Has career growth, high wages, and more trained or educated workers. Workers are less likely to leave, and vacancies are often filled internally.
- **Secondary** – Has high worker turnover, lower wages, and fewer opportunities for professional growth. Vacancies may be filled by outsiders.
- **Tertiary** – Includes sectors such as the informal or underground economy, which are often unregulated.

2. **Rigid and inflexible** – Naturally rigid and inflexible, as there are aspects that are determined by gaps within systems. Workers cannot easily move between jobs.

3. **Secondary Market** – Receiving the influence of other markets (such as the capital market, goods, services market)

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4. **Regulated** – Regulated through labor laws, government policies, trade unions to protect workers and prevent exploitation.

5. **Contractual and Participatory Relationships** – Sellers and buyers are governed by the laws and agreements between sa kanila; education, training, demographic factors and nagdedetermine sa value of labor.

6. **Administrative Market** – Companies manage their resources based on the demand for goods and services, including workforce planning and wage plans.

7. **Multidimensional** – The labor market can be studied from different dimensions:

- **Geographical scale** – Available workforce, age categories, and working population.
- **Economic scale** – Professions, population distribution by area of activity, and public participation in economic processes.
- **Educational scale** – Average duration of schooling, level of training, and number of people in similar forms of education
- **Social scale** – Cost of social protection, reconversion, and reintegration of employees into the labor market

8. **Inconsistent** – Workers differ in training, education, qualification, and other aspects, making the labor market inconsistent.

9. **Imperfect Market** – The labor market is not perfectly competitive because of government intervention, labor unions, employee power, wage regulations.

EMPLOYER-EMPLOYEE RELATIONSHIP

Employer-Employee Relationship refers to the practical and legal relationship between an employer and an employee, characterized by mutual rights and obligations.

Four-Fold Test

This relationship is determined using the **Four-Fold Test**, where the employer provides work and compensation while the employee performs work under the employer's control.

- **Selection and engagement of the employee** – The employer hires the employee.
- **Payment of wages** – The employer pays the employee.
- **Power of dismissal** – The employer has the power to remove or dismiss the employee.
- **Power of control (Control Test)** – The employer has the power to control not only the result, but also the means and methods by which the work is done.

Example #1: Jeepney driver and jeepney operator under the boundary system have an employer-employee relationship.

Reason:

- The operator has the power to choose who will drive.
- The operator may refuse to let a person drive the jeepney.
- Even if payment of wages is not in the usual form, the relationship may still exist because 3 out of 4 elements are substantially present, especially under the boundary system.

Example #2: Boy Abunda and GMA have no employer-employee relationship.

Reason:

- An artist is usually considered an independent contractor.

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- There is no control test over the means and methods of doing the work.
- The company controls only the desired outcome, not how the work is performed.
- Independent contractors usually possess special skills.

TYPES OF EMPLOYMENT

According to Tenure

Permanent – Usually associated with a regular employee. The work is necessary and desirable to the trade or business of the firm.

Casual – May be for a definite period. The work is merely incidental and not necessary and desirable to the trade or business of the firm.

Examples

A data analyst in a data-related company performs work that is necessary and desirable, so the employee may become regular.

A person hired to manage the canteen of the same company performs incidental work, since that is not the firm's main business.

On the Basis of Salary Component

Monthly-paid – Rest days and holidays are already included in the pay.

Daily-paid employees – Generally follows the rule of no work, no pay.

Under the Labor Code (Book VI)

Regular – If an employee has rendered at least one year of service, they may be considered a regular employee.

Project – Employment ends automatically upon completion of the project.

Seasonal – Employment depends on the season. Example: harvesting palay in March. Once the season ends, employment also ends.

Casual – Work is incidental to the usual trade or business of the firm.

Probationary – The employee is on trial period, usually up to 6 months.

Fixed-term – Employment lasts only for a specific period agreed upon by the parties.

Requirements for Probationary Employment

- There must be a written contract
- The contract must clearly state that the employee is under probation for a specified number of months
- It must specify the reasonable standards for evaluation
- There must be an assessment
- The results must be communicated to the employee

APPRENTICES AND LEARNERS

Both learnership and apprenticeship involve on-the-job training. The House Bill No. 2778 proposes a ₱10,000 stipend to help cover internship expenses. However, this measure has not yet been enacted into law. The intention is to provide financial support for interns, but it is not yet legally in effect.

Learners – Learnership agreement. It involves learnable occupations.

Apprentices – Apprenticeship agreement. It concerns apprenticeable occupation.

Learnership involves practical training on the job for a period not exceeding 3 months, while **apprenticeship** requires for proficiency, more than 3 months but not 6 months of practical training on the job.

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Learners have no qualifications required by law while apprentices under Article 59: a. at least 15 years old, possess vocational aptitude and capacity for appropriate tests; and possess the ability to comprehend and follow oral and written instruction.

When are Learners Hired?

- a. when no experienced workers are available
- b. The employment of learners is necessary to prevent curtailment of employment opportunities
- c. the employment does not create unfair competition in terms of labor cost or impair or lower working standards.

The wage rate for learners and apprentices is set at 75% of the statutory minimum wage.

Labor Supply

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AGENDA

- Definition of Labor Supply
- Wage Elasticity of Labor Supply
- Neoclassical Model of Labor-Leisure
- Indifference Curve
- Budget Constraint

LABOR SUPPLY

Labor Supply is the number of workers willing and able to work in a particular job or industry for a given wage.

In the labor market, the labor supply curve is upward sloping. In individual labor supply, the curve may be backward-bending.

WAGE ELASTICITY OF LABOR SUPPLY

Wage Elasticity of Labor Supply measures how responsive labor supply is to wage changes.

$$E_L = \frac{\% \Delta L_s}{\% \Delta W} = \frac{\Delta L}{\Delta W} \cdot \frac{W}{L}$$

Inelastic $\rightarrow \% \Delta L_s < \% \Delta W \quad 0 < E_L < 1$

Elastic $\rightarrow \% \Delta L_s > \% \Delta W \quad E_L > 1$

Inelastic labor supply – Labor supply changes only slightly even if wages change a lot.

– Common in:

- highly skilled jobs
- long training periods
- low labor mobility
- vocational aspect
- have fixed number of workers regardless of wage

– More inelastic in the short-run.

– Example: 2 forensic pathologists in Ph.

Elastic labor supply – Labor supply changes greatly when wages change.

– Common in:

- low-skilled jobs
- minimal education requirement jobs
- high mobility occupations
- areas with high unemployment

– More elastic in the long run.

NEOClassical Model of Labor-Leisure Model

According to Jeremy Bentham, human behavior is driven by its desire to maximize pleasure.

Utility Function

$$u = f(C, L)$$

Where:

C = consumption of goods

L = leisure

This means that a person's satisfaction depends on both the goods they consume and the amount of leisure they enjoy.

Utility – Means happiness or satisfaction.

– People choose the combination of consumption and leisure that gives them the highest utility.

Marginal Rate of Substitution – the slope of the indifference curve at a given point.

– Shows how much consumption a person is willing to give up for more leisure.

Marginal Rate of Substitution Formula

$$\frac{\Delta C}{\Delta L} = - \frac{MU_L}{MU_C}$$

INDIFFERENCE CURVE

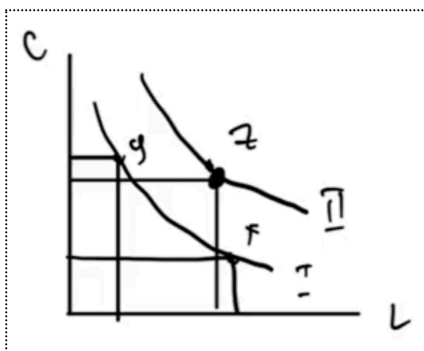
Indifference Curve shows combinations of consumption and leisure that give the same satisfaction. It is downward sloping because

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getting more of one means giving up some of the other.

Higher indifference curve = higher satisfaction.



- Y and F are on the same indifference curve. This means they give the same level of satisfaction/utility.
- Z is on a higher indifference curve. A higher indifference curve means higher satisfaction/utility.

Thus, a rational consumer will choose Z over Y and F.

Indifference curves are convex to the origin, showing the diminishing marginal rate of substitution. Its curve becomes steeper or flatter depending on how much leisure and consumption the worker has.

BUDGET CONSTRAINT

Budget constraint explains how workers choose between income and leisure

Budget Constraint Formula

$$C = wH + v$$

Where:

W = hourly wage rate

H = number of hours the person will allocate to labor market

V = non-labor income

Since time is limited to 24 hours a day, allocating more hours to work means having less time for leisure. Thus, work hours and leisure are inversely related. This framework helps explain how workers decide between earning income and enjoying leisure.

STATIC THEORY OF LABOR

The consumer theory discusses how a consumer allocates a certain amount of income to his expenditure on different goods.

The utility-maximizing bundle will depend on the level of income and the relative prices of the different goods. People derive their income from working by selling their work. Through their earnings, they can buy consumption goods and services. If they want to consume more goods or services, they will have to work more.

Labor is the opportunity cost for leisure since the time spent working reduces time for self, family, and rest.

Leisure is a good use for non-work or nonproductive activities.

Since time is limited to 24 hours a day, a person must choose between:

- working more to earn income, or
- enjoying more leisure

INDIVIDUAL LABOR SUPPLY

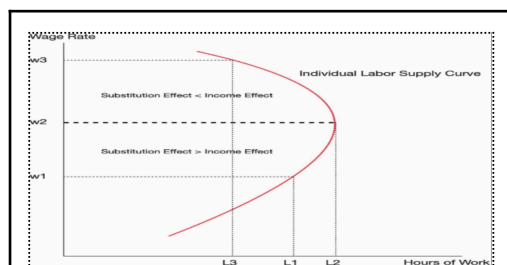
Labor Supply

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The individual labor supply curve can become backward-bending. Its shape is explained by the interaction between the:

- **Substitution effect** – Always positive.
 - When wages increase, the opportunity cost of leisure also increases. Since leisure becomes more costly, people are encouraged to work more instead of taking leisure.
- **Income effect** – Can be positive or negative.
 - **Positive income effect:** higher wages make people willing to work more.
 - **Negative income effect:** when income is enough, higher wages lead people to work less and choose more leisure.

Note: The backward-bending shape applies only to the labor supply of an individual worker, not to the market or firm labor supply curve.



W0 to W1 (Lower Wage Level)

When wages increase from a low level:

- **substitution effect is positive**
- leisure becomes more expensive in terms of forgone wages
- workers are encouraged to work more

At this stage, the **income effect is also positive**, so hours of work increase.

W1 to W2 (Middle Wage Level)

As wages continue to increase:

- **substitution effect remains positive**
- workers still prefer work over leisure because the opportunity cost of leisure is high

However, the **income effect begins to weaken**, and for some individuals it may start becoming negative once they feel that they achieved desired income. Still, the labor supply curve may remain upward sloping because the substitution effect is still stronger.

W2 to W3 (High Wage Level)

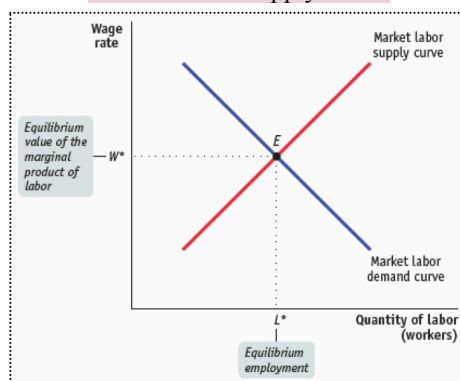
When wages become high enough and workers feel they have already reached their desired income:

- **income effect becomes negative**
- workers may now prefer more leisure rather than more work

Although the **substitution effect is still positive**, the **negative income effect may outweigh it**, causing the individual labor supply curve to bend backward.

MARKET LABOR SUPPLY CURVE AND FIRM'S LABOR SUPPLY CURVE

Market Labor Supply Curve



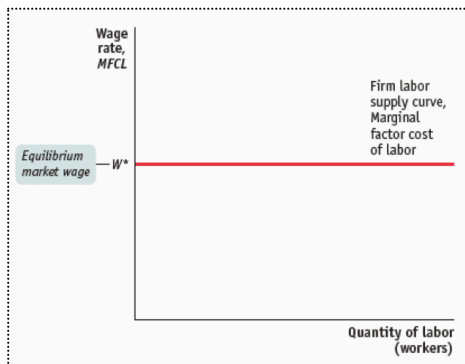
The market labor supply curve is **upward sloping** because higher wages encourage more people to enter the labor market. **Even if some**

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workers choose more leisure, the total number of workers willing to work usually increases.

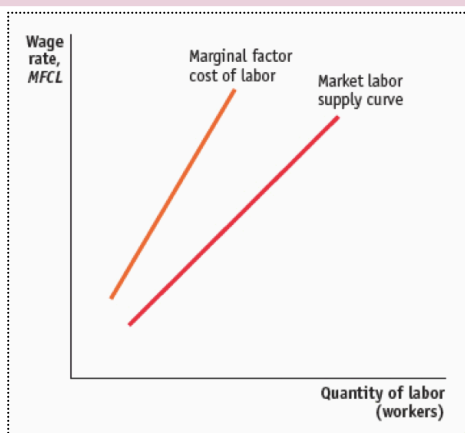
Firm's Labor Supply Curve



In a purely competitive labor market firms are wage takers since the wage rate is determined by the market.

Because the firm cannot control the wage rate, the firm's labor supply curve is horizontal at the market wage.

MONOPSONY LABOR SUPPLY CURVE



A monopsony exists when there is only one employer in the labor market.

In a monopsony, the market labor supply curve is upward sloping.

The marginal cost is higher because when wages increase to hire more workers, it has to raise wages for existing workers too. So, the additional cost of hiring one more worker is greater than just that worker's wage.

NON-WAGE DETERMINANTS OF LABOR SUPPLY

1. **Wage offered in substitute occupation** – If another occupation offers a higher wage, workers may transfer there. This reduces labor supply in the original industry of the worker.
– Example: Nurses choosing BPO work
2. **Barriers to entry** – If barriers are high, workers cannot easily enter the occupation or industry. This includes education, skills, experience.
3. **Non-monetary Characteristics of the Job** – These include benefits, working hours, and HMO, bringing positive and negative effects.
4. **Improvement of Occupational Mobility of Labor overtime** – If workers can move more easily from one place to another.
5. **Size of the Labor Market** – If the labor market can accommodate more workers, labor supply increases.
– Example: few hiring during lockdown
6. **Value of Leisure** – the higher the value of leisure to a person, the less willing that person may be to work more hours.

Labor Demand

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AGENDA

- Concepts in Labor Demand
- Marginal Revenue Product (MRP)
- Demand for Labor in Individual Firm vs. Industry
- Factors Affecting Labor Demand
- Criticisms of Marginal Revenue Product Theory
- Wage Elasticity of Labor Demand
- Factors Affecting Labor Demand

CONCEPTS IN LABOR DEMAND

Labor demand shows how many workers a firm will hire at a given wage rate over a given period of time. The firm hires workers because it needs labor to produce goods and services. Kaya ang demand for labor ay derived demand dahil galing ito sa demand for goods and services. (Direct Relationship)

Revenue Formula

$$\text{Revenue} = P \times Q$$

Where:

P = Price

Q = Quantity

Quantity Formula

$$Q = F(L, K)$$

Where:

L = Labor

K = Capital

Quantity is the output produced by the firm. In producing goods and services, firms pay for inputs, and these payments are costs.

MARGINAL REVENUE PRODUCT

Marginal Revenue Product (MRP) is the basis of firms in its demand for labor. It is the

additional revenue generated when an additional worker is hired.

Marginal Revenue Product Formula

$$\text{MRP} = \text{MP} \times \text{MR} \text{ or } \text{MRP} = \text{MP} \times P$$

Where:

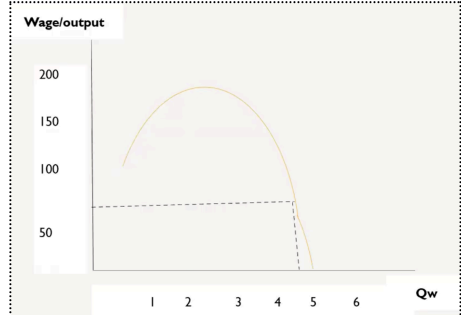
MP = change in TP/change in number of workers

MR = Marginal Revenue

P = Price

In a purely competitive market, price is equal to marginal revenue that's why $\text{MRP} = \text{MP} \times \text{Price}$.

Worker	TP	MP	P	MRP	W
1	6	6	20	120	60
2	14	8	20	160	60
3	24	10	20	200	60
4	32	8	20	160	60
5	35	3	20	60	60
6	36	1	20	20	60



The yellow line is the demand curve. It assumes a pure competitive market, making the firms wage takers.

- From 1 to 3 workers, MRP increases. This means the added workers first bring more revenue. Possible reason: specialization or excess in land/capital.

Labor Demand

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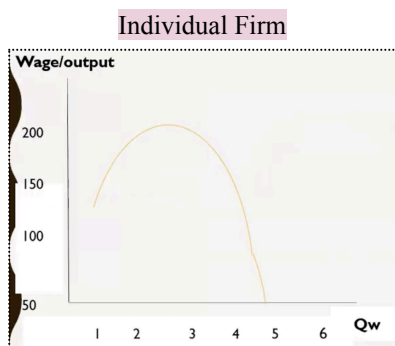
- From 4 to 6 workers, MRP decreases. This happens because productivity decreases due to diminishing marginal returns.

In this example, the wage is 60. Since the 5th worker has $MRP = 60$, the firm will hire up to the 5th worker. The 6th worker will no longer be hired because the MRP of the 6th worker is lower than the wage.

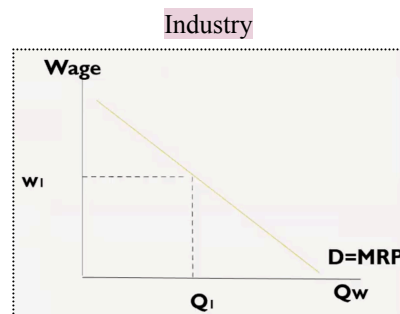
This shows that a rational firm hires workers until $MRP = \text{Wage}$.

DEMAND FOR LABOR IN INDIVIDUAL FIRM VS. INDUSTRY

If wage increases for both individual firms and industry, labor demand decreases. If wage decreases, labor demand increases.



For the individual firm, labor demand depends on decreasing MRP because of diminishing marginal returns. Because of this, there is an inverse relationship between wage and quantity of labor demanded.



For the industry, labor demand is the totality of all firms operating in the industry. It is also downward sloping. In the short run, this is still explained by diminishing marginal returns. In the long run, all inputs are viable, and firms can adjust labor and capital.

FACTORS AFFECTING LABOR DEMAND

1. Change in the final price of the product labor is making

price of product $\uparrow \rightarrow MR \uparrow \rightarrow MRP \uparrow \rightarrow$ labor demand $\uparrow$
 price of product $\downarrow \rightarrow MR \downarrow \rightarrow MRP \downarrow \rightarrow$ labor demand $\downarrow$

2. Change in demand for the final product

demand for product $\uparrow \rightarrow$ production $\uparrow \rightarrow$ labor demand $\uparrow$
 demand for product $\downarrow \rightarrow$ production $\downarrow \rightarrow$ labor demand $\downarrow$

3. Changes in labor productivity

labor productivity $\uparrow \rightarrow MRP \uparrow \rightarrow$ labor demand $\uparrow$
 labor productivity $\downarrow \rightarrow MRP \downarrow \rightarrow$ labor demand $\downarrow$

4. Change in the price of capital

price of capital $\downarrow \rightarrow$ use of labor $\downarrow \rightarrow$ labor demand $\downarrow$
 price of capital $\uparrow \rightarrow$ use of labor $\uparrow \rightarrow$ labor demand $\uparrow$

CRITICISMS OF MARGINAL REVENUE PRODUCT THEORY

- In the real world, labor productivity is difficult to measure. For example, teachers do not have output that can be counted.

Labor Demand

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- Production usually involves **teamwork**, so individual productivity is difficult to isolate.
- Marginal productivity of **self-employed** workers is difficult to measure.
- If the labor market is **not competitive**, workers and firms are **not wage takers**.
- **Laws and trade unions** can affect wage and benefits.

WAGE ELASTICITY OF LABOR DEMAND

Elasticity of labor demand measures how responsive the quantity of labor demanded is to a change in wage rate.

$$E_L = \frac{\% \Delta L_D}{\% \Delta W} = \frac{\Delta L_D}{\Delta W} \cdot \frac{W}{L_D}$$

Inelastic $\rightarrow \% \Delta L_D < \% \Delta W \quad 0 < E_L < 1$

Elastic $\rightarrow \% \Delta L_D > \% \Delta W \quad E_L > 1$

When labor demand is **elastic**, a change in wage rate causes a **larger effect on employment level**. (**significantly**)

When labor demand is **inelastic**, a change in wage rate causes a **smaller effect on employment level**. (**slightly**)

In the **short run**, labor demand is usually **inelastic** because firms cannot immediately adjust the labor force. They need time to hire and train new workers.

FACTORS AFFECTING LABOR DEMAND

1. **Labor cost** – If labor cost makes up a large portion of total production cost, labor demand tends to be more elastic.
 - It **makes firms become more sensitive to wage increases**.

2. **Ease and cost of factor substitution** – If labor can easily be replaced by other factors of production, (like **capital machines and equipment**) firms are more likely to reduce hiring when wages rise. Example: **instead of hiring more workers in Gardenia, firms may use machines to reduce labor cost**.

– However, labor demand becomes **inelastic** if substitutes for labor are expensive or difficult to acquire. Example: if capital equipment is too costly, firms will continue relying on workers.

3. **Price elasticity of demand for final goods and services** – Labor demand is a **derived demand**, meaning it depends on the demand for the goods and services that labor helps produce.

– If demand for the final product is elastic, a wage increase can raise production cost, increase price, reduce demand for the product, lower production, and decrease labor demand. This makes labor demand more likely to be elastic.

Key Idea

Labor demand tends to be **elastic** when:

- labor cost is a large share of total cost
- labor can be substituted with capital
- demand for the final good is elastic

Labor demand tends to be **inelastic** when:

- labor cost is a small share of total cost
- substitutes are expensive or unavailable
- firms cannot easily adjust in the short run.

Wage Determination and Resource Allocation

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AGENDA

- Definition of Wage
- Facilities vs Supplements
- Differences of Wages and Salary
- No Work, No Pay
- Payment of Wages and Time of Payment

WAGE

Wage determination is the process by which wages are set in the labor market.

Factors Influencing Wage Determination

1. Labor demand
2. Labor supply

Wages may also be affected by market imperfections, such as:

- existence of trade unions
- collective bargaining agreements
- government policies imposed on firms

Definition of Wage

Wages is the remuneration or earnings, however designated, capable of being expressed in terms of money, whether fixed or ascertained on a time, task, piece, or commission basis, or other method of calculating the same, payable by an employer to an employee under written or unwritten contract of employment:

- For work done or to be done, or for services rendered or to be rendered; and
- Includes fair and reasonable value of board, lodging, or other facilities customarily furnished by the Employer to the Employee as determined by DOLE.

Forms or Attributes of Wages

1. Cash wages – wages paid in money for services rendered.

2. Facilities – articles or services given for the benefit of the employee and voluntarily accepted.

FACILITIES VS SUPPLEMENTS

Facilities – these are primarily for the employee's own benefit. It may be deducted from wages, provided the legal requirements are met.

– Examples: board and lodging, meals, and coffee during breaks.

Supplements – these are primarily given with the expectation that the employer will also benefit from them. It is not deductible to wages.

– Examples: bonuses, pensions, and other cost of living allowances

Requirements for Deducting Facilities from Wages

- There must be proof that the facilities were furnished by the employer
- The employee's written consent must be obtained
- The facilities must be charged at a fair and reasonable value

DIFFERENCE OF WAGES AND SALARY

The term "wages" as distinguished from "salary", applies to the compensation for manual labor, skilled or unskilled, paid at stated times, and measured by the day, week, month, or season, while "salary" denotes a higher degree of employment, or a superior grade of services, and implies a position of office: by contrast, the term "wages" indicates considerable pay for a lower and less responsible character of employment, while "salary" is suggestive of a larger and more

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important service. (Gaa v. Court of Appeals, G.R. No. L-44169, 03 Dec. 1985)

Wage refers to pay for manual labor. It is often associated with **blue-collar jobs**. It indicates employment of a lower or less responsible character.

Salary refers to pay for more **skilled labor**. It is often associated with **white-collar jobs**. It applies to **positions** involving a higher degree of responsibility.

Wages may be **exempt** from execution or garnishment, while **salary** may be subject to garnishment, depending on the nature of the employment.

For Example:

- A laborer earning wages may be protected from garnishment
- A managerial employee receiving salary may have his/her earnings garnished

In *Gaa v. Court of Appeals*, the Court considered the employee's position and the nature of the work in determining whether the compensation was salary rather than wages.

No Work, No Pay

"No work, no pay" means that if no work is performed, no pay is due. This is commonly applied in private employment, especially to daily-paid workers.

Exceptions to No Work, No Pay Principle

- If **ready and available for work** but is prevented by the management
- If affected by an **illegal lockout** and firm stopped operation
- If **illegally suspended** and no is no due process followed

- If **illegally dismissed** and the labor arbiter ruled in favor of the employee
- If **illegally prevented from working**

PAYMENT OF WAGES AND TIME OF PAYMENT

Payment of Wages

As a general rule, **wages shall be paid in legal tender**. (Sec. 1, Rule VIII, Book III, IRR of LC)

Legal tender – means that wages should generally be paid in cash.

Payment through check is allowed, but it is not considered completed until the check is encashed or the amount is credited to the employee's account.

Exception of legal tender may be allowed in cases of **force majeure**, such as **earthquake** and **typhoon** where **causes** are beyond the employer's control. Once the situation ends, the employer must **immediately pay the wages**.

Time of Payment

Wage shall be paid:

- At least **once every two (2) weeks**; or
- Twice a month at **intervals not exceeding 16 days**.

The usual practice of paying on the 15th and 30th is only customary. But paying wages **only once a month** is not allowed.

Workers Not Covered by the Wage Provisions

- **farm tenancy** or **leasehold workers**
- **persons rendering personal service** to another (driver and domestic helper)
- **home workers**
- **workers in cooperatives**

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So, not all workers employed by a private employer are automatically covered by all wage provisions.

Non-Diminution of Benefits

Non-diminution of benefits – it prohibits employers from eliminating benefits already enjoyed by employees.

This rule applies when the benefit:

- is granted by written policy, and
- has ripened into company practice

Example: If employees customarily receive an additional ₱2,000 inflation allowance and it already ripen into practice, the employer cannot simply remove it.

Non-Interference in Disposal of Wages

Non-interference in disposal of wages – employers are prohibited from interfering with an employee's freedom to use or dispose of wages through forcing employees to spend wages in a particular way.

WAGE DISTORTION

Wage distortion is a situation where an increase in prescribed wage results in the elimination or severe contraction of intentional quantitative differences in wage or salary rates between and among employee groups in an establishment as to effectively obliterate the distinctions embodied in such wage structure based on skills, length of service or other logical bases of differentiation. (Art. 124, LC)

It is the disappearance or virtual disappearance of pay differentials between lower and higher positions in an enterprise because of compliance with a wage order. (P.I. Manufacturing v. P.I. Manufacturing

Supervisors and Foreman, G.R. No. 167217, 04 Feb. 2008)

Wage distortion happens when an increase in the minimum wage reduces or removes the pay gap between lower-level and higher-level positions.

Ways to Resolve Wage Distortion

- If there is a union, they settle through the grievance machinery between union and employer
- If there is no union, they settle through NCMB

Kailangan itaas ang sweldo ng managers and executives para maiwasan ang wage distortion.

SERVICE INCENTIVE LEAVE (SIL)

Service Incentive Leave (SIL) – a five-day leave with pay for every employee who has rendered at least one year of service whether continuous or broken. (Art. 95, LC)

In some companies, service incentive leave is also called vacation leave.

Not generally covered:

- Government employees
- Managerial employees
- Field personnel
- Employees in firms with less than 10 workers

If a company gives 10 vacation leaves, and the Labor Code only provides 5 days SIL. Can the employee still demand a separate SIL?

Answer: No. The vacation leave already serves as the equivalent of SIL because it is even more favorable than the minimum

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required by law.

An employee did not use the SIL and later got promoted. If the employee converts the SIL to cash, which salary rate will be used?

The conversion uses the current salary rate at the time of conversion. So if the employee was promoted before conversion, the higher rate will apply.

Are kasambahay entitled to SIL?

Answer: Yes, after 1 year of service. But under Batas Kasambahay, unlike ordinary SIL, it is not convertible to cash.

NORMAL HOURS OF WORK

The normal hours of work of any employee shall not exceed eight (8) hours a day. (Art. 83, LC)

1. Ee is required to be on duty or to be at a prescribed workplace;
2. Ee is suffered or permitted to work;
3. Rest periods of short duration during working hours which shall not be more than 20 minutes; and
4. Meal periods of less than 20 minutes. (Sec. 7, Rule I, Book III, IRR)

An employee may legally work less than 8 hours. The law says 8 hours is the maximum, not the minimum.

Meal break may be up to 60 minutes. It should be uninterrupted. If the employee is made to shorten the meal break for work, that time becomes compensable working time.

NIGHT SHIFT DIFFERENTIAL

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OVERTIME PAY

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OVERTIME PAY VS PREMIUM PAY

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4) Night Shift Differential

Employees must receive at least **10% additional pay** for each hour worked between **10:00 PM and 6:00 AM**.

Simple form:

Regular wage + 10%

Example:

100/hour → **110/hour** during night shift

5) Overtime Pay

Definition:

Overtime pay is at least **25% additional pay**

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for work done **beyond 8 hours** on an ordinary workday.

Simple form

Regular wage + **25%** for hours beyond 8

Example:

100/hour → OT pay = **125/hour**

6) Overtime Pay vs Premium Pay

Overtime Pay

Extra pay for work **beyond 8 hours** on an ordinary day.

Premium Pay

Extra pay for work done **within 8 hours** on a day the employee is **not normally supposed to work**, such as:

- rest day
- special day

Easy distinction

- **OT Pay** → work time goes **beyond 8 hours**
- **Premium Pay** → employee works on a **rest day/special day**

Arrow memory aid

- **More than 8 hours** → OT Pay
 - **Worked on rest day/special day** → Premium Pay
 - **Worked on rest day + exceeded 8 hours** → Premium Pay + OT Pay
-

7) Holiday Pay

Definition:

Holiday pay is a **one-day pay** given even if the employee does **not work** on a **regular holiday**.

Table/Photo Explanation: Holiday Table (Pages 3–4)

The table compares **regular holidays** and **special holidays**. The image on page 4 shows this clearly.

If unworked

- **Regular holiday** → employee may still be paid, subject to conditions

- **Special holiday** → generally **no pay**

If worked

- **Regular holiday** → **200% of regular rate**
- **Special holiday** → additional **30% of regular wage**

Easy arrows

- **Regular holiday, no work** → may still get paid
- **Special holiday, no work** → usually no pay
- **Regular holiday, worked** → **100% → 200%**
- **Special holiday, worked** → **100% → 130%**

Special note from your class example

If several holidays overlap, payment may become much higher. Your notes mention a case where the payment became very large because multiple regular holidays coincided.

8) 13th Month Pay

Definition:

A monetary benefit equivalent to **1/12 of the employee's basic salary earned during the year**.

Formula

Total basic salary from January to December ÷ 12

Important

- It is **based on wage**
- But it is **not part of wage**

Other notes

- It is required by Philippine law
 - Government employees may receive **13th month and 14th month pay**
 - Kasambahays are also entitled to 13th month pay
-

Graph Explanation: Purely Competitive Labor Market (Pages 4–5)

Your graph shows the labor market under **pure competition**.

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Assumptions

- Workers are **homogeneous**
- Labor is **perfectly mobile**
- Firms are **wage takers**

Main graph idea

- **Labor supply curve** slopes **upward**
- **Labor demand curve** slopes **downward**
- Their intersection determines:
 - **equilibrium wage**
 - **equilibrium quantity of labor**

Easy arrows

- **Supply of labor** → upward 
- **Demand for labor / MRP** → downward 
- **Intersection** → equilibrium wage + equilibrium labor

Meaning for firms

Since the firm is a **wage taker**, it does not choose the wage.

The **market already determines the wage**.

The firm only decides how many workers to hire.

Graph/Table Explanation: Hiring Rule in Pure Competition (Page 5)

The table and graph on page 5 show that the firm hires workers until:

$MRP = MC$

Meanings

- **MRP** = Marginal Revenue Product
- **MC** = Marginal Cost of labor

Rule

- If $MRP > MC$ → hire more workers
- If $MRP < MC$ → hire fewer workers
- If $MRP = MC$ → profit/revenue is maximized

Based on your example

- Wage = **20**
- Best number of workers = **4**
- Beyond 4 workers:
 - $MRP < MC$ → not efficient

- Below 4 workers:
 - $MRP > MC$ → still beneficial to hire more

Arrow summary

- $MRP > MC$ → hire more
- $MRP = MC$ → stop hiring 
- $MRP < MC$ → do not add more workers

9) Wage Differentials and Market Imperfections

There are **5 market imperfections** in labor markets.

1. Labor is not homogeneous

Workers differ in:

- skills
- qualifications
- productivity
- discrimination may also exist

2. Non-monetary considerations

Some jobs are less attractive, so they may offer **higher wages** to compensate.

3. Labor is not perfectly mobile

Examples:

- occupational immobility
- geographical immobility
- lack of perfect knowledge

4. Trade unions and supply restrictions

Trade unions may push for:

- higher wages
- better working conditions

5. Monopsony and wage-setting ability

A monopsonist is a **single employer** in the labor market.

Graph Explanation: Monopsony (Pages 5–6)

Definition

A **monopsony** is a labor market with only **one employer**. That employer becomes a **wage maker**.

Key features

- one buyer of labor
- wage maker

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- hires fewer workers
- pays lower wages

In the graph

- **Supply of labor = Average Cost (AC)**
- **Marginal Cost (MC)** is above the supply/AC curve
- **Demand for labor = MRP** and slopes downward

Why is MC above AC?

Because when a monopsonist raises wages to hire more labor, it may have to pay higher wages not only to the additional worker but also across workers, so the **marginal cost rises faster**.

Hiring rule

The monopsonist hires where:

$MRP = MC$

Then the wage is found from the **supply/AC curve**, which gives the **monopsony wage (W_m)**.

Arrow summary

- **Hire where $MRP = MC$**
- From that quantity → go to **supply curve**
- That point gives **W_m**
- **$W_m < W_c$**
- **$Q_m < Q_c$**

Meaning

Compared with a competitive labor market:

- **Monopsony wage is lower**
 - **Monopsony employment is lower**
-

Super Short Memory Guide

Pure Competition

- Firm = **wage taker**
- Wage set by **market**
- Hire until **$MRP = MC$**
- Wage = **higher**
- Employment = **higher**

Monopsony

- Firm = **wage maker**
- Hire until **$MRP = MC$**

- Wage taken from **supply/AC**
 - Wage = **lower**
 - Employment = **lower**
-

If you want, I can next turn this into a **clean reviewer format** with:

Term → Meaning → Example → Arrow shortcut